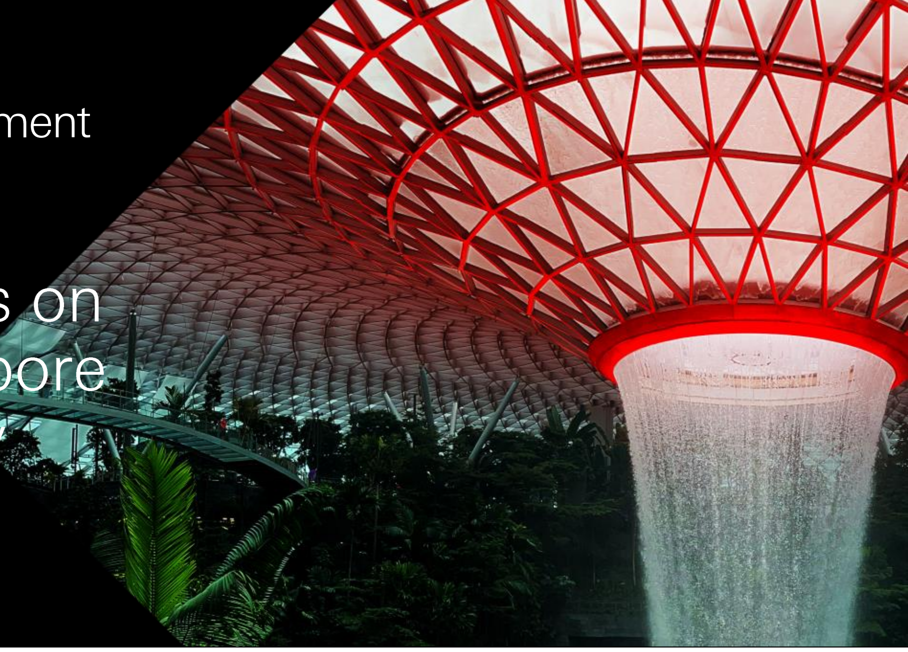
An international lens on the domestic Singapore dollar MMF industry



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Growth in SGD money market strategies

Singapore is widely regarded as a global economic and financial powerhouse, with a highly diversified and resilient economy. The city-state is the third largest recipient of foreign direct investment (FDI) in the world, counted amongst the top four global financial centers worldwide and stands as the leading wealth hub in Asia Pacific[1]. With that, Singapore gaining traction as a hub for fund domiciliation and management comes as no surprise, accelerated by the 2020 introduction of the Variable Capital Company (VCC) – a corporate structure for all types of investment funds – which now boasts more than 1100 standalone and umbrella VCCs registered to date[2]. These VCC's include over 2100 sub-funds across a broad range of fund strategies[3]. With VCC's flexibilities, the relatively new structure is providing options and potential benefits for fund managers and investors alike. One area of the domestic fund management industry to have undergone a period of transformation and growth since the launch of the VCC structure has been that of Singapore dollar (SGD) denominated money market funds (MMFs).

In recent years, domestic SGD denominated MMFs have seen substantial growth, with assets under management increasing by 200% since January 2023 to SGD 14.4 billion in December 2024 (Fig. 1). The size of the SGD money market fund industry (MMF) is even bigger at SGD 16.5 billion when including offshore funds.

Note 1. Source: United Nations Conference on Trade and Development, World Investment Report 2024; the Global Financial Centres Index 2024, September 2024, Rise of the Super Wealth Hub Series, Knight Frank, December 2023
2. ACRA Business Registry Statistics, https://www.acra.gov.sg/training-and-resources/facts-and-figures/business-registry-statistics
3. Singapore Asset Management Survey 2023, https://www.mas.gov.sg/-/media/mas/news-and-publications/surveys/asset-management/singapore-asset-management-survey-2023.pdf
Source: HSBC Asset Management, February 2025.
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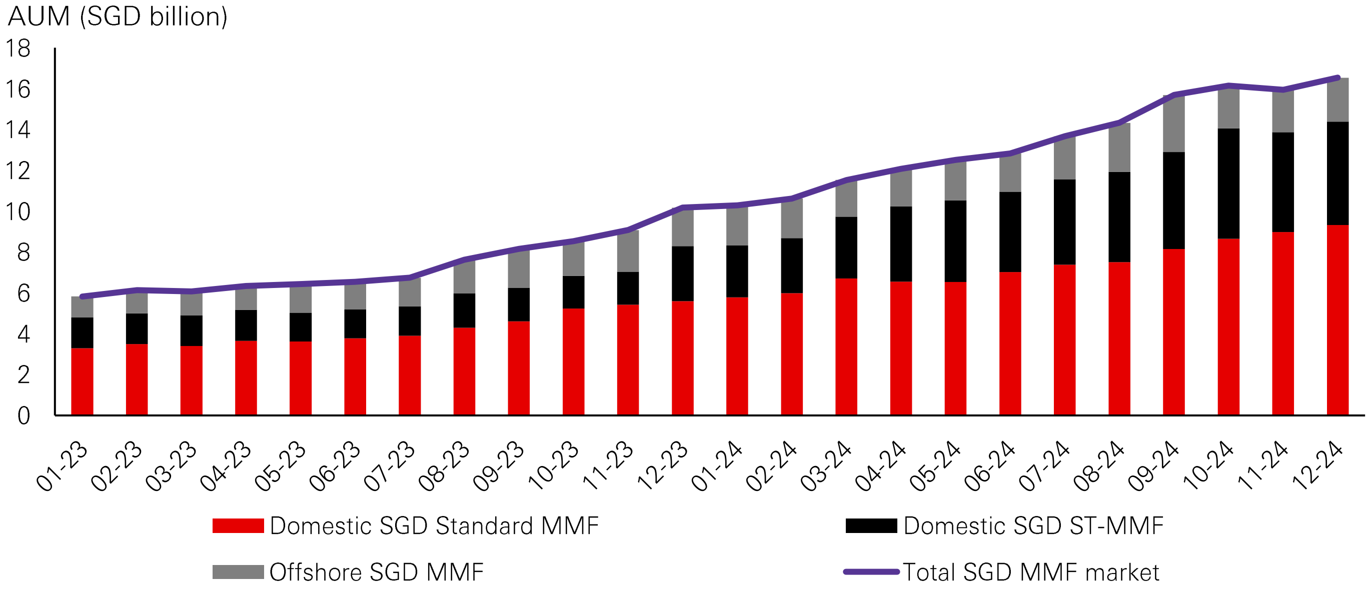
Fig. 1: AUM growth of SGD money market funds



Source: Refinitv, December 2024.

Historically, the domestic SGD denominated MMF industry largely consisted of strategies with higher risk budgets and lower liquidity requirements in comparison to internationally distributed prime money market funds, and therefore not typically conducive to attracting corporate or institutional investors. These are an important investor base in Singapore, which is home to more than 4,000 regional treasury centers, from small to medium enterprises to large multinational corporations and financial institutions. Growing demand for liquidity management solutions among these corporate and institutional investors in Singapore, has contributed to assets under management in 'Short-Term Money Market Funds' (ST-MMF)[4] growing approximately 211% to over SGD 5bn[5] in the five years to the end of January 2025. Internationally, money market funds at this lower end of the risk spectrum are an integral liquidity tool for corporate treasurers, pension funds, insurers and charities and are also widely used at the more conservative end of the retail market. Short-term money market funds invest in short-dated financial instruments and offer investors a high degree of liquidity while aiming to preserve capital – these are the types of fund characteristics that lend themselves to investors with shorter-term investment horizon where cash may need to be available at short notice and where preservation of capital is a priority.

Blending international convention with domestic fund solutions

Even within the narrower definition of Singapore domestic short term money market funds, there is scope for managers to distinguish their investment strategy and in the case of HSBC Asset Management, which launched its first domestic Singapore ST-MMF strategy in November 2024, more closely align it with international market convention. Managing MMFs across different markets, each with its own regulatory, market and economic idiosyncrasies, affords an international manager a unique perspective on the money markets among a variety of other benefits to investors.

Note 4. Appendix 2 Investment: Money Market Funds 2.23, https://www.mas.gov.sg/~/media/MAS/Regulations and Financial Stability/Regulations Guidance and Licensing/Securities Futures and Fund Management/Regulations Guidance and Licensing/Codes/CIS CODE 16 AUG 2018.pdf
5. Refinitiv, December 2024.
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International managers of MMFs will typically have a range of solutions in different currencies reflecting the global liquidity needs of multinational corporations and institutional investors. HSBC Asset Management manages money market strategies denominated in 11 currencies, including other regionally significant currencies such as HKD, RMB and INR, under a singular risk management framework. This consistent approach to managing liquidity portfolios means that irrespective of the markets being invested into, the same risk considerations are applied, thus reducing the due diligence required to select multiple managers as well as the ongoing monitoring of funds with different investment guidelines.

Experienced professional investment managers

A manager's investment guidelines will be informed firstly by the regulatory requirements in which the fund is operated, secondly by any constraints set by a third-party credit ratings agency where an external rating has been sought, and finally by a manager's own philosophy for liquidity investment management. The investment guidelines cover many different factors including credit, duration, diversification, liquidity, and asset type guidelines which will at least mirror regulatory and rating agency requirements and, in the case of HSBC Asset Management's, be more stringent than required in several key areas. Following the market convention for internationally distributed MMFs to be rated, the HSBC Singapore Dollar Liquidity Fund has been rated by S&P Global Ratings and awarded an 'AAAm' rating, making it the first domestic Singapore dollar denominated fund to be externally rated.

Active engagement in money markets around the world also affords HSBC Asset Management experience managing through numerous market crises, each a unique mix of idiosyncratic factors, from the catalyst of the event to numerous other variables including market dynamics around liquidity and credit, prevailing regulatory environment, macroeconomic factors, and fiscal and monetary policy. A portfolio manager's ability to draw on experience managing through crises will allow them to look at the individual factors objectively and inform their approach to liquidity portfolio management and the aforementioned guidelines.

Credit expertise

One of the key advantages MMFs offer to investors is access to credit analysis expertise, which is typically too expensive and resource-intensive to replicate in-house. By comparison to smaller or more domestically focused managers, HSBC Asset Management's global credit platform comprises analysts on the ground across the world, and our global presence and money market expertise gives us access to and a better understanding of a full range of international money market issuers and the markets they operate in. The result is a more geographically diversified list of approved issuers, each risk-assessed consistently across markets, from which to build highly diversified liquidity portfolios.

Greater levels of transparency

International managers operating domestic funds may also implement international conventions on fund reporting which typically offer a higher degree of portfolio transparency and a wider range of fund metrics and information. This level of reporting provides investors with better insights into the portfolio positioning and for investors in funds across multiple jurisdictions, consistent disclosures across jurisdictions ensure that investors receive comparable and reliable information regardless of where a fund operates.

Source: HSBC Asset Management, February 2025.
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In conclusion

The domestic market for MMFs in Singapore has undergone rapid transformation supported by the introduction of the VCC structure and reflecting growing demand among domestic and multi-national corporate and institutional investors based in Singapore, for cash investment solutions at the more conservative end of the risk spectrum. Among funds classified as short-term money market funds, there remains significant scope for managers to run liquidity strategies with materially different risk budgets, requiring investors to perform due diligence to ensure the capital preservation and liquidity objectives are uncompromised at each step in the investment process. Finally, international managers can bring deeper resources and broader experience to managing liquidity strategies in line with international norms.

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Key risks

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested.

- **Market risk.** Investment in securities is subject to general market, political and economic conditions and the value of securities fluctuate in response to the activities and performance results of the issuers of such securities.
- **Credit risk.** An issuer that the Sub-Fund is exposed to may default and not make payments on all securities potentially leading to the Sub-Fund incurring a loss of principal. An issuer suffering an adverse change in its financial condition could lower the credit quality of a security, leading to greater price volatility of the security. A lowering of the credit rating of a security may also offset the security's liquidity, making it more difficult to sell, which could adversely affect the Sub-Fund's principal value.
- **Liquidity risk.** The Sub-Fund is not listed and you can redeem only on Dealing Days. There is no secondary market for the Sub-Fund. All redemption requests should be made to the Company or its authorised distributors.
- **Interest rate risk.** The Sub-Fund invests in bonds and other fixed income securities that may fall in value if interest rates change. Generally, the prices of debt securities rise when interest rates fall, whilst their prices fall when interest rates rise. Longer term debt securities are usually more sensitive to interest rate changes.
- **Counterparty and settlement risks.** The Sub-Fund is exposed to counterparty risk. Counterparty risk is generally the risk that a counterparty may, for financial or other reasons, be unable to act in accordance with the terms and conditions of the contract and defaults. The result is a financial loss for the other party as it has to enter into substitute transactions at less favourable prices. Settlement risk occurs when a transaction is not completed as duly agreed between the parties. This may be due to an error or omission in the necessary settlement, clearing or registration processes or due to the lack of creditworthiness of one of the parties to the transaction.
- **Negative yield risk.** Market conditions, including but not limited to a reduction in interest rates may have a material impact on the return of the underlying investment of the Sub- Fund. It is possible that the Sub-Fund will generate an insufficient amount of income to pay its expenses and that it will not be able to pay dividends and may have a negative return. Such market conditions, together with any actions taken by financial institutions in response thereto (such as, for example, by way of reducing interest rates and therefore income payable on investments of the Sub-Fund), are outside the control of the Directors.
- **Historical pricing risk.** Shares are issued and realised on a historical pricing basis. The subscription and redemption prices of the Sub-Fund may not be reflective of the actual NAV as at the date of issue or realisation.

Refer to paragraph 9 of the Prospectus and paragraph 9 of Appendix 1 of the Prospectus for further information on risks of the product.

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